HOUSE BUDGET COMMITTEE

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Statement of Congressman John Spratt On the Administration's Mid-Session Review of the Budget

Those hoping to address the worrisome budget outlook can only be disappointed by the Mid-Session Review, because it obscures with implausible projections the growing fiscal challenges that we face. The Administration claims that the breakdown in the budget results from the direct and indirect effects of September 11. But spending for the war on terrorism accounts for only 12 percent of the ten-year decline in the deficit, and GDP is better than expected.

Even if one accepts the Mid-Session Review's rosy assumptions, the Bush Administration's budget still spends the Social Security surplus in every year for the next ten. Last year, OMB embraced our goal, declaring that, "The President and Congress are committed to preserving the Social Security surplus for debt reduction." This year, that goal is abandoned; the Administration lacks even a plan for attaining it. It proposes to spend, without so much as an apology, $2.0 trillion of the Social Security surplus over ten years.

The Mid-Session Review claims that there has been only a modest $175 billion deterioration in the ten-year budget outlook since February. In light of the revenue collapse of April and the sagging stock market, that claim simply is not credible. Even Senate Budget Committee Republicans believe that the 2003 budget deficit will be $194 billion, fully $85 billion more than the Administration's figure.

Here is why the Mid-Session Review is a dubious report:

- OMB assumes that GDP will be higher in every one of the next ten years than it projected in February ***and*** that a higher proportion of GDP will be subject to tax.

- OMB assumes that over the next five years individual income tax receipts will zoom back to the record percentages of GDP of the 1990s.

- OMB predicts that corporate profits will jump 25 percent in 2005 — the year when unified budget balance is claimed — even though profit surges this large have happened only three times in the last half century.

- OMB projects that revenues from capital gains taxes will grow in 2003 when this year's taxes are filed — even though the stock market is down sharply this year.

- OMB continues to show Medicare baseline spending following a lower path than CBO projects — even though health care cost increases have gone up sharply.

This budget also omits costs of programs that the President has advocated:

- The Mid-Session Review shows only $190 billion for a Medicare prescription benefit — even though the Administration has endorsed the House Republicans' $350 billion proposal.

- This budget pretends that non-defense, non-security programs will be cut in nominal dollars in 2003 and in real dollars every year thereafter — while the President advocates increased funding for foreign aid, education, the National Institutes of Health, and the SEC.

- The Administration claims to be concerned about an alternative minimum tax that will apply to 39 million taxpayers by 2012 — including more than half of all families with children — but the $300 billion to $500 billion needed to fix the AMT cannot be found in this budget.

- This budget does not acknowledge the cost of renewing a host of popular expiring tax provisions — even though the Administration has argued that anyone who lets a tax break expire is a "tax raiser".

- And finally, this budget omits any mention of the trillion dollars needed to implement the President's proposal to partially privatize Social Security by allowing individuals to divert a portion of their payroll taxes into individual accounts invested in stocks.

In fact, there is no mention of Social Security in this budget. Just a year ago, the President and every Republican leader in Congress were promising to protect every penny of the Social Security surplus. But in this budget, there is no prospect of getting out of the Social Security Trust Fund surpluses in any year in which President Bush could possibly serve. This explains why the Administration chose not to show ten year numbers revealing the full impact of its budget on the Social Security surplus.

According to the Mid-Session Review's own numbers, last year's tax cut has accounted for 29 percent of the deterioration in the surplus since February 2001. The Administration proposes to enact another ten-year tax cut of over $500 billion on top of those already enacted, accounting for almost 10 percent more, even though it knows every cent of taxes cut will have to be borrowed from the Social Security trust fund. New spending — all approved by the President — accounts for another 29 percent. Economic and technical revisions account for 32 percent.

The Administration claims that this 32 percent, due to economic and technical factors, could not have been foreseen. But economic factors really are not the issue because the recession has proven shorter and milder than expected. Even with the stronger recovery, revenues are well below expectations. There was ample warning — both from Congressional Democrats and CBO — that this might happen. Several analysts pointed out that the very high level of receipts relative to GDP was related to the soaring stock market, and the stock market already was declining when the first Bush budget was passed.

Regardless of what caused $5 trillion of the surplus to disappear over the last 18 months, our fiscal world clearly has changed. The problem is, the Administration's approach to it ***has not.***